

STATE OF MAINE
PUBLIC UTILITIES COMMISSION

Docket No. 2001-348

July 10, 2001

EASTERN MAINE ELECTRIC COOPERATIVE, INC.
Application for Approval of Issuance
of Securities and Mortgage of Utility
Property (§902, §1101) (\$3,871,000)

ORDER APPROVING
ISSUE OF SECURITIES

WELCH, Chairman; NUGENT and DIAMOND, Commissioners

I. SUMMARY

On May 25, 2001, Eastern Maine Electric Cooperative (EMEC or the Company) filed with the Commission an application for approval to enter into a loan agreement with the Federal Financing Bank (FFB). EMEC proposes to borrow an aggregate amount not to exceed \$3,871,000 from FFB for a maturity not to exceed 35 years. EMEC will draw down funds as needed in the form of individual notes within four (4) years of closing, with each note bearing a fixed interest rate determined by FFB's then prevailing offering rate. This Order approves EMEC's request.

II. BACKGROUND & DECISION

This request is related to the Company's previous request in Docket No. 98-844, *Eastern Maine Electric Cooperative: Application for Approval of Issue of Mortgage Securities*. In that docket, the Company presented a five-year construction plan that allowed it to "catch-up" on system repairs and upgrades that were delayed during the seven-year period of EMEC's bankruptcy. This request represents the second half of that work plan. EMEC requires these funds for the purposes of constructing approximately 22 miles of new distribution lines, one mile of tie line, and seventeen miles of line conversions and line changes. In addition, EMEC plans the replacement of a distribution sub-station, alterations to five other substations, the purchase and installation of 331 overhead transformers and 496 customer meters as well as various other capital improvements. EMEC estimates that these improvements, combined with improvements made to date in the first phase of the plan will allow it to accommodate approximately 400 new customers that it anticipates adding by 2002.¹

¹ EMEC anticipated customer growth at 400 new customers between calendar year 2000 and 2002. As such, some of the loan proceeds will be used to reimburse EMEC for year 2000 capital improvements previously funded from cash flow or short-term credit facilities.

EMEC's loan agreement with FFB allows the Company to make individual drafts over a four-year period following closing. Each draft will have its own note with a specific maturity date (selected by EMEC) and a fixed interest rate set at the time of the draft. The limiting factors for EMEC are the aggregate amount available (\$3,871,000) and the maximum maturity date, which is 35 years. EMEC requested the flexibility to choose maturity date (and thus the interest rate) as drafts are made rather than drawing down and fixing the rate on the entire amount at closing. While there is some risk of higher interest rates over the next four years, and FFB does not allow for the capping of interest rates, this risk is somewhat mitigated by two factors. First, there is no commitment fee due for amounts that are available but not drawn down immediately. Second, and more importantly, if EMEC drew funds that were not immediately required for construction, it would needlessly incur interest expenses on those outstanding balances. Recent rates quoted by FFB on May 18, 2001 were: 1-Year at 3.92%; 7-Years at 5.35%; and 30 Years at 5.87%. These rates include a margin of 12.5 basis points for administrative fees, but appear quite favorable when compared to Treasury instruments.² EMEC's request for flexibility in choosing maturity dates and taking drafts as needed over time appears reasonable.

Having reviewed the application of the EMEC, together with data filed in support of it, it is the opinion of the Commission that the proceeds of the mortgage notes are required in good faith for the purposes enumerated in 35-A M.R.S.A. § 901 and approval is therefore granted. As is required under 35-A M.R.S.A. §1101, EMEC is also authorized to mortgage utility property as necessary to complete the transaction. In approving this debt issuance, consistent with normal practice and pursuant to 35-A M.R.S.A. § 902(4), the Commission does not imply approval of EMEC's capital needs or capitalization ratio for ratemaking purposes, nor does this Order limit or restrict the powers of the Commission in determining or fixing any rate.

Accordingly, we

ORDER

1. That Eastern Maine Electric Cooperative, Inc. (EMEC) is authorized to issue securities to the Federal Financing Bank (FFB), as set forth in its application, in a sum not to exceed \$3,871,000 to be used solely for the purposes described in its filing at the prevailing fixed FFB loan rate, with a final maturity not to exceed 35 years from the date of issuance.

2. That EMEC report to the Commission in writing, within 60 days of the date of any draft under this credit agreement, its actions pursuant to this Order. This report should include the amount, term and interest rate of the draft, plus any other information EMEC deems relevant.

Dated at Augusta, Maine, this 10th day of July, 2001.

² May 21, 2001 Federal Reserve H.15 Release indicates treasury rates for Friday May 18 as follows: 1-Year at 3.79%; 7-Year at 5.28%; 30-Year at 5.76%.

BY ORDER OF THE COMMISSION

Dennis L. Keschl
Administrative Director

COMMISSIONERS VOTING FOR: Welch

Nugent
Diamond

NOTICE OF RIGHTS TO REVIEW OR APPEAL

5 M.R.S.A. § 9061 requires the Public Utilities Commission to give each party to an adjudicatory proceeding written notice of the party's rights to review or appeal of its decision made at the conclusion of the adjudicatory proceeding. The methods of review or appeal of PUC decisions at the conclusion of an adjudicatory proceeding are as follows:

1. Reconsideration of the Commission's Order may be requested under Section 1004 of the Commission's Rules of Practice and Procedure (65-407 C.M.R.110) within 20 days of the date of the Order by filing a petition with the Commission stating the grounds upon which reconsideration is sought.
2. Appeal of a final decision of the Commission may be taken to the Law Court by filing, within 30 days of the date of the Order, a Notice of Appeal with the Administrative Director of the Commission, pursuant to 35-A M.R.S.A. § 1320(1)-(4) and the Maine Rules of Appellate Procedure.
3. Additional court review of constitutional issues or issues involving the justness or reasonableness of rates may be had by the filing of an appeal with the Law Court, pursuant to 35-A M.R.S.A. § 1320(5).

Note: The attachment of this Notice to a document does not indicate the Commission's view that the particular document may be subject to review or appeal. Similarly, the failure of the Commission to attach a copy of this Notice to a document does not indicate the Commission's view that the document is not subject to review or appeal.